EXHIBIT N

What is Cost of Capital (CoC)?

A utility's Rate of Return (ROR), or Cost of Capital (CoC), is the weighted average cost of debt, preferred equity, and common stock, a utility has issued to finance its investments. Return on Equity (ROE) is the return to common equity. The Commission attempts to set the authorized ROE at a level that is adequate to enable the utility to attract investors to finance the replacement and expansion of its facilities so it can fulfill its public utility service obligation. In practice, this level is determined by estimating market returns on investments for other companies with similar levels of risk.

R.87-11-012 established an annual CoC proceeding separate from GRC for the major California utilities beginning from January 1, 1990. CoC is typically determined by the Commission for the major utilities in a single proceeding. In 2008, Decision (D).08-05-035 established a multi-year Cost of Capital Mechanism (CCM) for PG&E, SCE, SDG&E and SoCalGas. SoCalGas had a similar mechanism, Market Indexed Capital Adjustment Mechanism (MICAM), since 1996. The CCM requires

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utilities to file CoC applications every three years. The CCM provides a mechanism which automatically adjust utility CoC based on utility bond rate changes in each year, the utility is not required to file a CoC application. The last time utilities subject to the CCM received a thorough review was in 2012 in Decision (D.)12-12-034. In 2015, 2016 and 2017, the utilities requested and were granted waivers from filing CoC applications.a delay of the test year review.

Most recently, in 2017, the utilities filed a joint petition to modify D.12-12-034 requesting to reduce the adopted ROE, update the cost of debt, and delay, and delay the next full Cost of Capital proceeding to 2019. Consistent with the resulting D.17-07-005, SCE, PG&E, SDG&E and SoCalGas filed test year 2020 cost of capital applications (A.19-04-014) on April 22, 2019. The assigned Commissioner and ALJ issued a scoping memo and ruling on July 2, 2019, setting the scope and the schedule for the proceeding.

The cost of service regulation does not guarantee utilities will earn an authorized ROE. A utility's actual or recorded ROR may be higher or lower than what the Commission has authorized, depending on how the utility manages its costs. If the utility's actual costs end up lower than the authorized revenue requirement, then its recorded ROR could be higher than its authorized ROR. When recorded ROE is higher than authorized ROE, shareholders will benefit. This provides an incentive for utilities to reduce their operating costs below the authorized revenue requirement.

For current and historical CoC data, click here.

The Commission also establishes authorized Cost of Capital levels for small, multi-jurisdictional utilities. Click here for more information about these proceedings.

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